

## Chapter 5

# The Moderating Effect of Social Capital in Relation to Entrepreneurial Orientation and Firm Performance

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### ABSTRACT

*The importance of entrepreneurial orientation (EO), resource-based view (RBV), network types of social capital (SC) and small and medium enterprises (SMEs) have become the main focus in the manufacturing environment. The current study investigates 1. The relationship between EO and Manufacturing SMEs performance and 2. The moderating effect of intra- and extra-industry network in EO and manufacturing SMEs performance relationship. Quantitative method was done through survey. The population of this study was industrial SMEs in Tehran and Hamedan. Proportionate stratified random sampling was employed and out of 580 questionnaires sent out, only 150 questionnaires were returned. The result implies that the dimensions of EO positively improved manufacturing SMEs performance. In addition the result shows that the high intra-industry network strongly moderates the relationship between innovativeness and growth-profit ability and also strongly moderates the relationship between risk-taking and growth-profitability. Contributions and limitations of the study are also discussed accordingly.*

## INTRODUCTION

Nowadays, there is no doubt on the significance of the SMEs for development and the economic growth of the countries. Both developed and developing countries with the proper strategy try to solve the unemployment and produce better work environment and to utilize the SMEs in order to develop the entrepreneurship, and to increase the added value and industrial export. The SMEs are more changeable in comparison with the other larger enterprises and, innovation happens more in these enterprises. They could easily adopt themselves with the changeable environments and they showed a rapid reaction to the environmental factors such as economic, social, political, technical and legal factors (Saidi Kia, 2013). Since environment factors can be considered as unforeseen factors, this study focuses on internal resources and capabilities and also their industry network in improving the performance of SMEs in Iran.

the significance of SMEs in developing countries is broadly explained in the literature through their special characteristics that involve the followings: 1) their amount is extremely large, and they are dispersed extensively throughout the village areas and therefore they may have a special “local” significance for the village economy; 2) they attract different labour; 3) mainly involve agriculturally based activities; 4) these enterprises, especially small firms, finance their operations overwhelmingly by personal savings of the owners, supplemented by gifts or loans from relatives or from local informal moneylenders, traders, input suppliers, and payments in advance from consumers; and 5) provide an avenue for the development of entrepreneurship (. China’s recent quick development is also related to the arrival of many new small firms in village townships and in littoral areas, often in new industries (Ratten, 2014; Hussain, Farooq, & Akhtar, 2012).

Generating employment is an overwhelmingly important issue in Iran since 2000. According to data released by the statistical Centre of Iran, national unemployment rate rose up to 11 per cent in 2015 to 750000 people entered the labour market each year in Iran, where more than half of the population of 79 million is under 30 (Statistical Centre of Iran [SCI], 2015). Statistics show that the share of added value of SMEs in Iran is less than the large enterprises. The added value of small and medium Iranian enterprises is just about 14.8% of the whole added value in the country (SCI, 2015). Table 1 shows that small and medium enterprises have the least share of value added in comparison with large Iranian enterprises between the years 2005 to 2009. The statistics proved that there is a need to pay more attention to SMEs in Iran.

Jalali, Jaafar, and Ramayah (2014) has identified that one of the most important problems in Iran which is related to the industry is internal barriers including existence of traditional structure in differ-

*Table 1. The added value of enterprises in Iran according to the firm size*

Large	Small and Medium	Firm Size
Value Added	Value Added	Year
385668	35094	2009
454229	40401	2010
569853	54480	2011
773439	74783	2012
1081186	82673	2013

Source: Institute for Trade Study and Research, 2015.

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